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FROM THE U.S. MISSION TO THE UN AGENCIES IN ROME

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TAGS: [AORC](#) [EAID](#) [EAGR](#) [KUNR](#) [FAO](#) [WFP](#)

SUBJECT: FAO FINANCE COMMITTEE SEPTEMBER 2004 SESSION

Summary

1. During the 108th session of FAO's Finance Committee:

-- The Secretariat outlined a critical deterioration of the organization's finances and said it was making preparations to borrow externally \$50 million during the month of October, with additional borrowing in November, to meet immediate cash flow needs.

-- A number of countries were shown to be in a serious arrears position, particularly Iraq, Yugoslavia, Argentina, and Brazil.

-- We found that the organization's emergency operations had not effectively utilized the Special Fund for Emergency and Rehabilitation Activities (SFERA), in spite of critical needs, as noted by the Director General (DG), to meet crises such as the locust infestation in northwest Africa.

-- A recent actuarial estimate to amortize After Service Medical Liabilities was discussed at double the level presented to the 2003 Conference.

-- A Medium-Term Plan, based on ambitious (and probably unrealistic) 2.2 percent real budget growth assumptions for 2006-2011, was presented.

-- An Independent Evaluation of FAO's Decentralization was tabled, one which roundly criticized the organization's field operations in most parts of the world.

-- The initiative for an independent external evaluation of the organization's role, impact and management was discussed widely on the margins, but not within the committee meetings themselves. However, the tone of the meeting emphasized that the organization's status quo is not sustainable over the long term. Most members present picked up on the logic of doing an independent evaluation.

End Summary.

2. The Fall session (Hundred and Eighth) of FAO's Finance Committee convened between September 27 and October 1, 2004. DCM Michael Cleverley occupied the North American seat on the Committee.

Liquidity Crisis: Need for External Borrowing in late 2004

3. In the Committee's first session, the Secretariat pointed to the organization's seriously deteriorating financial position. The general fund deficit had increased from \$90 million at the end of the 2002/3 biennium to \$134 million at 30 June 2004. There were three reasons: (1) the delay in receiving annual assessments, principally from the US and Japan; (2) growing levels of arrears; and (3) higher than projected spending for the amortization of after service medical care (now running over double the \$14.1 million per biennium set aside by the 2003 Conference).

4. The organization's liquidity was also critically depleted, much due to the above factors as well as an accelerated rate of disbursement for the Technical Cooperation Program (TCP) and disbursements to cover the \$41 million allocation of arrears for one-time expenditure. The Secretariat said it expected to need \$50 million in external borrowing in October and early November if contributions from the US and Japan were further delayed. Such a borrowing would entail \$62,000 of interest costs for October. Following this discussion, the Japanese delegate, after consulting with Tokyo, informed the Committee that Japan would make full payment of its assessment in mid-October. USDEL noted (privately to the Secretariat) that, with the US's fiscal year just beginning, it was difficult

to give details, but we hoped to make a partial payment in late October, with another partial payment in November. It was not clear whether these payments alone would be October salaries. Please

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Arrears: A Growing Problem-----Hn a study on arrears, the amount of arrears in some countries in payments to other UN organs. The discussion on this is the broader issue of FAO among many members. In its request, the Section that showed arrears made significant extra-budgetary contributions. Brazil, for example, while owing over \$21 million in arrears, gave \$13 million in extra-budgetary contributions in 2002/3. Other countries with major arrears: Argentina (\$17.6 million), Iraq (\$5.5 million) and Yugoslavia (\$8.4 million). On its books, the organization is carrying the United States with \$1.75 million in arrears.

6. The committee explored a number of incentives and penalties for dealing with arrears, but referred the issue back to the Secretariat to develop an options paper for the May 2005 Committee and June 2005 Council.

Emergency Fund: Weak Management

7. During a problematic discussion on the Special Fund for Emergency and Rehabilitation Activities (SFERA), established in June 2003 and operational in March 2004, the Secretariat was initially unable to answer basic questions,

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such as the current balance of the rotating fund. Under close Committee questioning led by USDel, the Secretariat reluctantly admitted that it had allocated \$430,000 from the SFERA monies intended for emergency coordination units for needs assessment work related to the Northwest Africa locust infestation, but nothing from the \$1 million SFERA portion earmarked for advance funding for approved emergency projects where pledged funds had not been received. (Comment. FAO DG Diouf has repeatedly criticized donors for their slowness in funding pledges for this crisis. It appears that FAO did not utilize the fund expressly created for bridging pledges and disbursements. End Comment.) Instead, funds had been used in Darfur and in Colombia to assist transitioning farmers. The Colombia project came under Committee criticism for failing to be the type of emergency for which SFERA was initially set up. The Committee concluded the discussion by accepting the USDel's call for (1) a lessons-learned assessment of FAO's emergency locust control operations, and (2) a subsequent update report on SFERA operations to be prepared for the Finance Committee meeting in September 2005.

After Service Medical Cost Liability: Overhang

8. The Secretariat pointed to the erroneous actuarial assumptions behind last year's estimate that was funded by the December 2003 Conference at US\$ 14.1 per biennium to cover outstanding After Service Medical Cost (ASMC) liabilities. Revised actuarial projections showed this figure would need to increase to \$30 million to be fully amortized in subsequent biennia. USDel made the point that the US still needed convincing that this additional cost should be automatically transferred to member states, and asked that the Secretariat prepare an options paper for the May 2005 Finance Committee.

Medium-Term Plan: Unrealistic

9. The Medium-Term Plan (MTP) presented to the Committee and discussed jointly with the Programme Committee projected programming for the 2006-2011 period based on an assumption of 2.2 percent real growth per annum. (A zero real growth (ZRG) scenario also was inherent in the document, but difficult to find in a presentation that obviously hoped to draw attention away from ZRG assumptions.) The US led Japan and the UK in an attack of the 2.2 percent real growth assumption as unrealistic, given FAO's budget history of the past decade and particularly the political outcome of the 2003 Conference budget discussions. USDel pointed out that, although the MTP was only indicative and theoretically had few implications relative to eventual

Arrears: A Growing Problem

5. In a study on arrears, the Secretariat found that the amount of arrears was increasing and that some countries in arrears tended to make payments to other UN organizations before FAO. The discussion on this latter point suggested the broader issue of FAO's sagging credibility among many members. Responding to the Committee's request, the Secretariat provided information that showed a number of

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budget resolutions, the Secretariat had lost an opportunity to project an MTP that could be relevant to the likely budget environment. Japan called for an alternative scenario (USDel joined in support), and the UK complained that the Secretariat's failure to provide a zero nominal growth (ZNG) scenario for last year's budget discussions had resulted in much additional last-minute work and excessive expenditures before a budget was eventually resolved. 177 countries, on the other hand, wanted a larger than 2.2 percent growth factor keyed in.

10. The debate resumed the following day in the joint meeting of the Programme and Finance Committees. The Secretariat consistently countered that the MTP was the

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Director General's proposal, was only indicative, and was not likely to be changed. As a result, the focus of the debate shifted toward the assumptions rather than concentrating on the program priorities inherent in the

plan. Upon continued questioning, it was eventually possible to decipher the difficult document to reach the following projection for 2005-6:

ZNG (based on 2004-5 budget): \$749.1 million
ZRG (based on an assumed 3.5% price rise): \$775 million
MTP (based on 2.2% real growth): \$799 million

(This does not include the amortization for ASMC, which could add another \$30 million).

Decentralization: Critical Evaluation

11.Up for discussion was an important and thoroughly researched Independent Evaluation of FAO's Decentralization, released during the summer of 2004, that roundly criticized the quality, training, and capacity of FAO's field offices and operations. It documented widespread member state dissatisfaction with the field offices in all but a few regions. In its "preliminary response," the Secretariat said it welcomed the report's findings, but claimed that it had not yet had an opportunity to thoroughly reflect on the several recommendations. Rather than spend time with each individual recommendation, the Committee agreed to revisit the report in its next session and called on the Secretariat to provide for that discussion a response that

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detailed in which areas management disagreed with findings and recommendations, and that provided a time-bound implementation plan.

WFP Consideration Anachronism

12.During the May 2004 Finance Committee meeting, the Committee requested that World Food Programme (WFP) agenda items be labeled "for information," and be discussed only if Committee members had questions or comments on the submitted documents. For this session, the Secretariat failed to follow this request and included two WFP items "for discussion." When USDel asked about this during the discussion on the agenda, the Secretariat countered with a litany over FAO oversight of WFP's finances. USDel noted that WFP financial issues are discussed in detail at the ABACQ in New York and at WFP Executive Board meetings, and argued that the Finance Committee could meet any statutory responsibilities by including the items on the Committee's agenda, to be discussed if needed. The Secretariat refused to budge, clearly trying to maintain the organization's fig-leaf of control over WFP.

13.Comment: Finance Committee review of WFP finance-policy items is in our view redundant, anachronistic, and expensive. Over the past year there have been several FAO Finance Committee sessions devoted to WFP items. Interpretation costs, alone, run about \$10,000 a day. No substantive points arose from the FAO review process that were not later discussed in much greater detail in WFP's Executive Board meetings. We strongly recommend that the US maintain pressure on FAO to remove this inefficient use of funds for what appears to be simply a case of superficial turf preservation. End Comment.

External Auditor Private Sector Participation?

14.The Secretariat returned to a question, raised by the USDel in the May 2004 Finance Committee session, about whether a private sector entity could compete for appointment as external auditor. The Secretariat's paper indicated that throughout the UN system the auditor must be chosen from among auditors general of member states. Several G77 members were troubled by this discussion, apparently for political reasons, but the committee requested the Director-General refer the issue to the UN System Chief Executives Board for Coordination for additional information about UN practices.

15.This is a broader issue that might merit Department attention. There could well be economies to be achieved from opening the audit function to private sector competition.

Comment

16.Many of the issues considered in Committee will return for discussion in the November FAO Council, and we will provide via septel further background and thinking prior to the Council. However, there were several points that deserve continued US attention:

Arrears The top four countries in arrears owe nearly \$53 million. There are financial issues surrounding Argentina and Brazil, and political considerations for Iraq and Yugoslavia. We may wish to consider whether the US can/should use any possible leverage for dealing with the arrears problem from these countries.

Medium-Term Plan (general) It appears that the organization has cut spending close to the bone, and further cuts will be exceptionally painful. However, this has been done thus far within existing organizational parameters inside the box. Whereas in one sense the MTP projects a needed increase in real revenue levels, in another sense the lack of imagination and creativity inherent in the current formulation essentially guts its usefulness by failing to take into consideration relevant scenarios. For example, the question, "How would you spend your money if next time you had less than (or the same as) now?" is a reasonable point of departure for a serious program planning discussion. At issue is not necessarily whether the organization will have more or less funding in the future, but how can it re-structure itself to better react to today's world, i.e., to get outside the box.

Independent External Evaluation The proposed external evaluation of FAO was discussed on the margins, but not within the Committee meetings themselves. However, just about everything discussed, such as the MTP, the budget crisis, and the decentralization report, underlined the need for a basic re-look at the organization and how it does business. Most countries present picked up on this logic that the status quo is not sustainable over the long term.

WFP We need to be working to get WFP off the FAO Finance Committee agenda. The current arrangement is a waste of funds and time.

After Service Medical Charges We made it clear in the discussions that we are in no mood to rubber stamp the increase necessary to cover ASMC, from \$14.1 to \$30 million per biennium. While the Secretariat is now tasked to provide an options paper for the June 2005 Council, the logic for covering this liability is still as valid as it was in December 2003. It will need to be covered within the structure of any sound financial approach to the organization.

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